

Message Text

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ACTION ARA-10

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TAGS: EGEN, EFIN, EINV, AR

SUBJECT: MINISTER OF ECONOMY'S SPEECH IN CORDOBA

REF: (A) BUENOS AIRES 6292, (B) BUENOS AIRES 6293

BEGIN UNCLASSIFIED

1. SUMMARY. MINISTER OF ECONOMY MARTINEZ DE HOZ GAVE MAJOR SPEECH ON THE ECONOMY IN CORDOBA ON SEPTEMBER 29. THE SPEECH COVERED AMONG OTHER SUBJECTS THE BUDGET DEFICIT, TAX REFORM, STATE ENTERPRISES, EXHCHANGE RATE POLICY, FOREIGN EXCHANGE RESERVES, TRADE, INVESTMENT, FOREIGN INVESTMENT LAW AND THE RECOVERY OF INDUSTRIAL PRODUCTION. THE MAIN POINTS MADE BY THE MINISTER ARE SUMMARIZED BELOW.

2. THE GOA BUDGET DEFICIT, WHICH REPRESENTED ABOUT 13 PCT OF GDP IN MARCH, HAS BEEN REDUCED TO ROUGHLY 5 PCT OF GDP. WHEREAS TAXES IN MARCH COVERED ONLY 20 PCT OF EXPENDITURES, THEY NOW COVER 40 PCT. GOA EXPENDITURES IN THE SECOND QUARTER OF 1976 WERE 28 PCT LOWER IN REAL TERMS THAN THOSE IN THE FIRST QUARTER OF 1976 AND 14 PCT BELOW THOSE OF THE LIMITED OFFICIAL USE

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SECOND QUARTER OF 1975.

3. TAX LEGISLATION WILL BE ANNOUNCED SOON INCREASING SUBSTANTIALLY THE LEVEL OF THE INCOME EXEMPTED FROM THE INCOME TAX AND GENERALLY ALLEVIATING THE TAX BURDEN OF THE MIDDLE INCOME WAGE EARNER. THE RECENTLY ANNOUNCED 4 PCT TAX ON AGRICULTURE PRODUCTION WOULD NOT COMPENSATE THE LOSS OF REVENUE FROM THE REDUCTION OF EXPORT TAXES. HOWEVER, THE GOA CONSIDERS EXPORT TAXES UNHEALTHY AND PLANS TO STUDY WAYS TO REPLACE THE XPORT TAX WITH A LAND TAX WHICH WOULD ENCOURAGE PRODUCTION.

4. THE GOA IS PROCEEDING WITH THE LEGAL AND ADMINISTRATIVE REORGANIZATION OF THE LARGE STATE ENTERPRISES TO IMPORVE MANAGEMENT AND COST EFFICIENCY. THE GOA ALSO PLANS TO RETURN TO THE PRIVATE SECTOR COMPANIES NOW ADMINISTERED BY THE STATE BECAUSE OF BANKRUPTCY.

5. THE GOA HAS MADE PROGRESS TOWARD A UNIFIED FOREIGN EXCHANGE RATE. THE FACT THAT THE PESO/DOLLAR RATE DROPPED CONSIDERABLY SINCE THE NEW GOVERNMENT CAME INTO POWER REPRESENTS CONFIDENCE IN THE EXCHANGE RATE POLICY.

6. GROSS RESERVES ARE NOW \$1.5 BILLION, \$600 MILLION OF WHICH ARE FREELY DISPOSABLE. SWAPS, WHICH TOTALED \$1.3 BILLION AT ONE TIME, ARE NOW DOWN TO \$1 BILLION AND WILL CONTINUE TO DECLINE.

7. DURING THE FIRST 8 MONTHS, THE BALANCE OF TRADE SHOWED A SURPLUS OF \$500 MILLION AND THE GOA EXPECTS A POSITIVE BALANCE FOR THE YEAR OF \$800 MILLION. EXPORTS DURING THE FIRST 8 MONTHS OF 1976 TOTALED \$2.6 BILLION AS COMPARED WITH \$2 BILLION FOR THE SAME PERIOD IN 1975.

8. INVESTMENTS WHICH WILL BOOST ARGENTINA'S ECONOMIC RECOVERY INCLUDE A) AN IDB-FINANCED PROJECT FOR SILOS; B) TWO PAPER AND PULP PROJECTS TOTALING LIMITED OFFICIAL USE

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\$850 MILLION: CELULOSA ARGENTINA - \$500 MILLION AND ALTO PARANA - \$350 MILLION; C) VARIOUS PROJECTS ASSOCIATED WITH THE BAHIA BLANCA PETROCHEMICAL COMPLEX, INCLUDING THE GENERAL CERRI GAS DEL ESTADO ETHANE PLANT WHICH QUOTE IS MADE POSSIBLE THANKS TO AN EXIM BANK CREDIT UNQUOTE; SEVERAL SATELLITE PLANTS USING ETHYLENE FROM PETROQUIMICA BAHIA BLANCA (PARTICIPATION DIVIDED 70 PCT PRIVATE AND 30 FABRICACIONES

MILITARES; D) \$115 MILLION FOR THE SEGBA POWER COMPANY (WITH IBRD FINANCING); E) \$100 MILLION FOR ROAD CONSTRUCTION (IBRD FINANCING).

9. THE GOA WILL ANNOUNCE SOON THE TAGULATIONS TO THE FOREIGN INVESTMENT LAW AND CREATE A STATE AGENCY TO IMPLEMENT THEM. THE GOA HAS ALREADY RECEIVED SOME CONCRETE PROPOSALS FOR FOREIGN INVESTMENT - AN INDICATION THAT FOREIGN INVESTMENT WILL ENTER ARGENTINA SOONER THAN EXPECTED.

10. AS A RESULT OF THE NEW EXCHANGE POLICY, THERE HAS BEEN A SUBSTANTIAL INCREASE IN EXPORTS OF SOME INDUSTRIAL PRODUCTS. INCLUDING NATURAL FIBER TEXTILES, SOME STEEL PRODUCTS, TANNED HIDES AND LEATHER PRODUCTS, CANNED FOOD, FRUIT JUICE, CHEMICALS, PHARMACEUTICALS AND MILK PRODUCTS. PRODUCTION HAS INCREASED IN SOME INDUSTRIES, INCLUDING WINES AND OTHER BEVERAGES, FOODSTUFFS, CEMENT, TIRES, TRACTORS, AUTOS, ELECTRICAL MACHINERY, RUBBER PRODUCTS, ELECTRONICS, AUTOMOBILE PARTS, AGRICULTURAL MACHINERY AND PLASTICS. TRACTOR SALES ARE UP 145 PERCENT OVER LAST YEAR AND SALES OF AUTOMOBILES IN AUGUST WERE UP 50 PERCENT OVER THE SAME MONTH IN 1975. THERE ARE EVEN SOME AUTOMOBILE FACTORIES WHICH ARE EXPERIENCING DELAYS IN DELIVERING CARS OF BETWEEN 20 AND 30 DAYS. END UNCLASSIFIED.

11. BEGIN LIMITED OFFICIAL USE. COMMENT: UNLIKE HIS SEPT. 22 SPEECH WHICH CALLED FOR SACRIFICES AND ALLUDED TO THE MANY PITFALLS FACING THE ECONOMY, THE MINISTER'S CORDOBA SPEECH ALMOST EXCLUSIVELY STRESSES THE POSITIVE DEVELOPMENTS AND ACHIEVEMENTS SINCE THE GOVERNMENT ASSUMED POWER. THERE IS NO DISCUSSION OF INFLATION OR OF REAL WAGES -- THE ISSUES FOREMOST ON THE MINDS OF THE ARGENTINES. AS LIMITED OFFICIAL USE

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A RESULT, THE SPEECH COMES ACROSS AS ONE-SIDED AND A PROPAGANDA EFFORT ON THE PART OF THE GOVERNMENT TO COUNTERACT SOME OF THE DOUBTS PUBLICLY EXPRESSED ABOUT THE VIABILITY OF THE NEW ECONOMIC PROGRAM. CONFIDENCE IS CERTAINLY AN IMPORTANT INGREDIENT FOR THE ECONOMIC RECOVERY. END LIMITED OFFICIAL USE.
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